EXHIBIT 5

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In Re: LEHMAN BROTHERS HOLDINGS, INC., et al., Debtors.	Chapter 11 Case No. 08-13555 (JMP) (Jointly Administered)

DEPOSITION OF DAVID F. BABBEL
New York, New York
Friday, March 7, 2014

Reported by:
PATRICIA A. BIDONDE, RPR

P R O C E E D I N G S

D A V I D F. B A B B E L,

called as a witness, having been duly sworn by a Notary Public, was examined and testified as follows:

EXAMINATION BY

MR. LAWRENCE:

Q. Please state your full name for the record and spell your last name, please.

A. David Frederick Babbel, B-a-b-b-e-l.

Q. What is your business address?

A. 215 Wakefield Road, Bryn Mawr, Pennsylvania.

Q. We were introduced before the deposition. My name is Paul Lawrence, and I represent the Washington State Tobacco Settlement Authority.

I appreciate your time today. You understand you've been retained as an expert witness in this case, correct?

A. Correct.

Q. And it looks, from your materials, that you've testified many times

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forward rates from future rates?

A. Forward rates are today's price for locking in a new commitment.

Q. Because the market -- you're not using market data to predict future rates. You're using market data to understand the market as of a given day. Correct?

A. That's correct.

Q. And the ability to use market data to understand forward rates assumes that there's an active market that you can trade in. Correct?

MR. TAMBE: Objection to the form of the question.

Q. In other words, if you're deciding about buying T-Bills and you're deciding about the different rates that are available and the different terms and you're analyzing forward rates, you're using market data on the assumption that you can then go out and transact in T-Bills in the market. Correct?

MR. TAMBE: Same objection.

A. In both versions of your

the agreements. Correct?
A. That's correct.
Q. And if I wanted to discount that to present value, how would you do that?
A. It would depend, as I said, on who the counterparty is, who is going to make those payments.
Q. Right now, there's no counterparty who is going to make those payments?
A. That's right.
Q. So what assumption would you make in order to do present value calculation in the sum of those payments?
A. Well, I wouldn't assume the federal government is going to pay it. So you're going to have some other party -- you would look at the nonfederal government analog to that to be the fixed leg of a swap.
Q. So what would your best opinion be about what you would look to? Are you talking about LIBOR? Are we talking about some other index? Are we talking about the rate of return that TSA was actually receiving

for a period of time? How would you figure that out?

MR. TAMBE: Object to the form.

You can answer.

A. It really depends upon the damage theory, I suppose. I wasn't retained as an expert on damages, and I haven't thought about damages.

The focus of my testimony is whether forward rates of interest are used in valuing swaps. So I don't have an opinion. It depends on the damage theory that the courts decide is appropriate in this case.

Q. Explain that to me. What about the damage theory would inform your decision on how to discount a current value?

MR. TAMBE: Objection to the form of the question.

A. Your hypothetical -- your question is looking at a series of future payments according to reports, the next 23 years or so, whatever remains of that. And you want me to come up with -- you're asking how would I come up with a present value.

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Q. That wasn't my question. My question is simply: Whether or not you would agree that the forward rate predicted on a given day for eight years out is more likely than not going to be different than the actual rate on that given day eight years out.

MR. TAMBE: Objection to the form.

A. Well, now you said the forward rate predicted.

Q. I know you don't like to do the prediction work.

A. It doesn't predict.

Q. The forward curve gives you a number?

A. It gives you a number, today's price of making a future commitment.

Q. Right. And you go out eight years, and you look to see whether or not the six-month yield is at the number the forward curve generated.

Would you agree it's more likely than not that the eight-year-out number is going to be different than the number that was

generated by the forward curve?

A. You're creating a link where there's no necessary link. Eight years from now there's different information, different prices.

The forward rate tells you today's price of making a future commitment. It doesn't tell you the future price of making that commitment. You have to add a whole bunch of assumptions to get to that point.

Q. Now, the typical oversimplified version of modeling is, sort of, the garbage-in-garbage-out equation, which means that the quality of the data input is important to understanding the quality of the model. Correct?

A. Yes.

Q. And the forward curve model depends on market data. Correct? The data inputs are market information?

A. The forward curve does not depend upon market data. The calibration of the forward curve depends upon market data.

Q. The inputs into the -- the data

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out. Correct?

A. Correct.

Q. With economists, I think you would be asking them to do their best prediction on what rates would be on agency securities five, ten, fifteen years out. But you could generate a forward curve based on economists' predictions. Correct?

A. That's not a forward curve. A forward curve has to do only with current prices.

Q. So you would generate -- you would generate a curve and call it something else?

A. Call it "predictions," yeah.

Q. Because, certainly, the forward curve is not about predictions.

A. No. It is to some people. But that's not how it's constructed.

Q. That's now how it's supposed to be used in your view as an economist and in your view, based on your opinion, in this case?

A. I won't say that's not how it's

supposed to be used. People can use the curve. And if they can get some information on or about the future, bless their hearts. But it's calculated based upon the present.

Q. You're not opining that it's a good predictive tool. Correct?

A. I'm not saying one way or the other. There's a big debate about that.

MR. LAWRENCE: Why don't we take a lunch break.

(Lunch recess taken from 12:34 p.m. to 1:41 p.m.)

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A. Forward rates are important whether you can lock them in or not. They tell you the price of money at different periods of time, today's price of locking those in. Whether you can lock it in or not, the value is independent of whether you can do it.

Q. Well, if I don't have the capability to invest in the ways that are necessary to lock in the rates derived from the forward curve, what good does it do me?

A. It tells you what the costs are. And it tells you what the market value is.

Q. It doesn't tell you what the value is to me in terms of what I can transact in the market. Correct?

A. It doesn't tell you that.

Q. Now, you would agree that the -- and if the word "indication" is wrong, let me know.

A. Can I go back to the last question. I don't know that I -- could you read that again for me. I think I was incomplete in my answer.

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(Record read.)

Q. Can I go on to my next question?

A. Yes.

Q. Thank you. And, if the word "indication" bothers you, let me know. And tell me what would be a better word.

So the forward curve as of March 25, 2009, indicated a -- how short-term interest rates would look from 2009 through February 24, 2014. Correct?

A. No.

Q. Please correct my statement.

MR. TAMBE: Objection to the form of the question.

You can answer.

Q. What is incorrect about my question?

A. How short-term rates should look. I think those were your words.

Q. I want to use the terminology that works for you. So you tell me what terminology works for you. What does the forward rate tell us about -- other than what market participants think short-term rates

will be, it doesn't tell us anything more than that. Right?

MR. TAMBE: Objection to form.

A. It doesn't necessarily tell you that.

Q. Okay.

A. It tells you the price of money today to lock in the future commitment. It has embedded in it the consensus of the market for what the costs of making those commitments are.

Q. So if we look at the forward curve as of March 25, 2009, it will -- it indicated what the price would be to lock in the interest rate as of February 24, 2014. Correct?

A. What the price would be to lock in the interest rate as of February 24, yes, it would tell you.

Q. And it would tell you what the yield would be as of February 24, 2014, that you were locking in. Correct?

A. It would.

Q. So is it fair to say that the

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yields that appear on the forward curve as of March 25, 2009, are different than the yield that could have been locked in on January of 2014, if you had a forward curve, say, on that day?

A. Yes.

Q. Different than January of 2010?

A. It would be different than March 26 of 2009.

Q. Every day is different?

A. Every day.

Q. So if we wanted to actually look at the reality of short-term interest rates up to February 24, 2014, there's actual real data that we could look to and say, here are the actual short-term interest rates. Correct?

A. Correct.

Q. Okay. And I think, as you've just said, if we ran a future curve as of the date of your report, February 24, 2014, it would look different in terms of short-term interest rates on a future curve on March 25, 2009. Correct?

A. Yes.

what you have stated, and others -- there was not an active market for those sorts of contracts. But there was, certainly, a very active market for both legs of that contract.

Q. Well, that's not what this -- did you read this agreement?

A. I did.

Q. Okay. Does the agreement say you're supposed to get quotes for some different kind of contract, than the RFA?

A. Well, you can't get quotes for the RFA. You have to value it in pieces.

Q. That's not what it says here, does it? Does it say, "If you can't get quotes, then you value it in pieces"?

MR. TAMBE: Objection to the form of the question.

And just if you can, just let him finish answering.

A. If you keep reading, if you go to Section 7.6, it says that when you're doing such an operation, you have to do it from the perspective of the dealer, basically.

Because dealers are the ones that

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offer this. In fact, they said "Lehman's perspective." And that's the way the market values these things, and you do it in pieces. You do the best you can.

These instruments are valued all the time even though they're not traded. And they have to be valued, because they're reported mark to market on a daily basis. The CME requires that they use forward rates to value them.

The London Clearing House says you have to use forward rates to value them, and nothing that I've ever read says you have to use Hasterok's assumption.

And had Lehman assumed, or anyone assumed, what Hasterok does, they never would have entered into the deal. They would have said, "Okay. You're giving us $45 million, but it's only worth $15 million or $10 million. Because you're limiting us to only earn 65 basis points for the next 23 years."

Q. So is it correct then that your opinion is based on the assumption that the TSA loss has to be valued from the dealer side

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of the market?

MR. TAMBE: Objection to the form of the question.

A. It -- you use -- the way I read that -- and I'm not giving a legal opinion, just the way I read the contract -- is that you're supposed to use the typical conventions that dealers would use.

Q. So then is your opinion based on that assumption; that is, your opinions about the propriety, the use of the forward curve, et cetera, based on the assumption that you value this from the dealer side of the market using dealer-standard valuation methodologies?

A. That's a good question. I would value it the same whether I were the buyer or the dealer, because those are the only values that are traded. So it really doesn't matter.

Q. But if TSA can't transact, why do traded values matter to TSA?

MR. TAMBE: Objection to the form of the question.

You want him to speculate as to what matters to the TSA?

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Q. I'm not suggesting you know. I'm just asking how do you determine what their total losses will be. As you said, there may not be losses. You have to go through the valuation first. How do you valuate what the total losses will be?

A. You look at what they could have lost in value. That's how I would do it. But I'm not the damages expert. I don't know the definition of damages.

They're talking here about a termination amount. I know something about valuing swaps, fixed pieces, and floating pieces.

My testimony is really restricted to methodology and how swaps are -- take advantage of or valued by forward rates of interest. So I wasn't asked to really do this, what you're asking me now.

Q. Okay. Fair enough. I do need that back though.

A. Sure. (Handing.)

Q. Have you ever been asked to give an opinion about a party's total losses?

MR. TAMBE: Objection to the form of the question.

A. I don't know. I don't think so.

Q. Okay. When you use the term "historically low short-term interest rates," what interest rates are you referring to?

A. Interest rates during my time, since I started looking at it.

Q. What instrument? When you say "interest rates," it could be a money market funds, a T-Bill, a --

A. I'm sorry. Treasuries.

Q. Treasuries?

A. Yes.

Q. You say the 65 -- the .65 percent interest rate ignores historical record.

Do you see that?

A. Yes.

Q. It certainly reflects the historical record from March 2009 to February 2014. Correct?

MR. TAMBE: Objection to the form.

A. I'd have to look at the data.